Natural Gas and Transportation Fuels Subcommittee Meeting
August, 2, 2006, House Majority Caucus Room

The meeting was called to order at 9:35 a.m. by Representative Bert Stevenson. Other Subcommittee members present were Senator Kate Kelly; Representative Ken Andrus; Representative Wendy Jaquet; Russ Hendricks, Farm Bureau; Hilary Sinnamon, Environmental Defense; Paul Martin, Classic Cars of Idaho; Mike Huntington, Intermountain Gas Co. Senator Mike Jorgensen and Senator Russ Fulcher were absent and excused.

Other persons present were Representative Nicole LeFavour; Kerry Klinger, Idaho National Laboratory; Brian Dickins, ICL- OST; Dan Kirschner Northwest Gas Association; Dar Olberding, Idaho Grain Producers Association and 25X25; Dick Rush, Idaho Association of Commerce and Industry; Don Reading, Ben Johnson Associates; David Hawk, J.R. Simplot Company; Jerry Ward and Laura Johnson, Idaho Department of Agriculture; Courtney Washburn, Idaho Conservation League; Russell Westerberg, PacificCorp; Mike Louis, Energy Policy Institute Boise State University; John Crockett and Gerry Calinato; Energy Division of the Department of Water Resources; Ken Miller, NW Energy Coalition; Harrison Pettit, and Tom Koehler, Pacific Ethanol; Ron Williams Tesovo; Mike Nugent Legislative Services Office and Eric Cutter, E3.

Natural Gas

Several speakers supported promoting the best end use of natural gas. In particular, well to end use efficiency supports replacing electric heating with natural gas. There was widespread agreement that gas fired generation will continue to be necessary for peaking capacity. Some argued that base load electric generation is not the best use of natural gas; more Btu's are captured in direct end use and industrial applications. Others cautioned that utilities need the flexibility to response to changing conditions and that placing limits on the use of natural gas has proven problematic in the past. It was left that it is best for the state articulate goals promoting the best or most efficient use of natural gas without placing express limits on its use.

It was argued that gas utilities lack the incentive to reduce natural gas use on two fronts. Idaho gas utilities are active in promoting conservation, but nevertheless incur a financial penalty for doing so. Decoupling recovery of fixed costs and return on rate base from sales is one commonly used mechanism for removing that disincentive. Additionally, utilities are risk adverse and able to pass gas costs on to ratepayers. Utilities do undergo reasonablenss reviews of their procurement activities, but it was argued that the standard economic impulse to reduce demand in response to higher prices is muted.

Investigating procurement incentive mechanism and encouraging, or not discouraging hedging and long-term supply contracts (with 20/20 hindsight reasonableness review) were briefly discussed. These issues may be best left for the PUC to consider.

It was generally argued that new supply (LNG, unconventional) anywhere in the US will help Idaho in a well integrated market, though Idaho should support west coast projects in particular. Some interest was expressed in addressing potential infrastructure constraints as pipeline expansions move historically captive supply eastward.

Experience with CNG vehicles was not generally encouraging, but support should be offered where viable (possibly state fleets, school busses, public transportation)

Petroleum

There was general agreement that Idaho should diversify its fuel supply, given its reliance on out of state refineries and full utilization of existing capacity. Several argued that primary emphasis should be placed on conservation, which can achieve significant, cost effective savings. Others supported emphasizing conservation as long as new supply and infrastructure development was also encouraged.

Idaho can benefit from the experience of other states (WA, OR, CA) that have implemented more aggressive fuel conservation and pubic transportation programs in recent years. Support for public transportation should be included, though the committee felt additional input on existing efforts at various agencies and commissions was needed. The direct option tax (allowing local government to propose tax measures) is a related issue that will face the legislature

Truck idling has gained attention in other states and should be addressed in Idaho as well. Attention should also be given to efficiency in school busses, local government fleets and state fleets.

This subcommittee expects that the Conservation and Demand Side Management subcommittee will take the lead on natural gas and electric conservation, while conservation for petroleum fuels will be considered here.

Biofuels

There was broad support for encouraging production and use of all types of biofuels. Some expressed concern that corn based ethanol can displace at most about 10% of the US fuel supply and that support for existing corn based ethanol production technology could delay investment in cellulosic ethanol. It was noted that Idaho is not a large corn producer and cellulosic ethanol and biodiesel hold more promise for the state. Others don't want to wait too long for a future technology when benefits can be achieved today. It was noted that corn ethanol facilities can be retrofitted for cellulosic production. Concern that dairy farmers might be hurt by higher feed prices and/or supply shortfalls was expressed. On the other hand, high quality feed is a byproduct of ethanol production.

Given news about high ethanol prices and supply shortages, there was widespread concern about implementing a renewable fuel standard. Some supported a renewable fuel standard with price and production triggers. Others said a standard is necessary to create a market and encourage wholesalers and retailers to add ethanol to fuel (it was noted that independent stations are allowed to blend ethanol into their fuel. Chevron currently prohibits retailers from blending ethanol in Idaho, but not in California). Retail stations probably need support to make infrastructure investments necessary to offer E-10

and E-85 blends, this should be coordinated with air quality requirements for phase I and II vapor recovery.

Detailed discussion of which type of incentives to offer, which stage of production to support, and the types of fuels and technologies to encourage were deferred to the September 7, 2006 meeting.

It was suggested that the Interim Committee discuss whether to propose an organizational evaluation of state agencies and energy related activities and potential restructuring. An annual conservation/energy summit for Idaho was also suggested as an idea.

Proposed Policy Goals

Natural Gas

- Encourage the highest and best use of natural gas.
- Encourage direct end use in applications for which natural gas is the most efficient energy source.
- Where appropriate and cost effective encourage use of natural gas vehicles for company and/or state owned fleets

Note: conservation goals will be considered after input from the Conservation and Demand Side Management Subcommittee

- Support responsible exploration and production of natural gas supply and expansion of transmission, storage and distribution infrastructure
- Support non traditional natural gas supply resources, including landfill methane, anerobic digesters, biomass methane.
- Support siting of LNG terminals in the US as well as and infrastructure that provides delivery capability to Idaho

Petroleum

- Promote conservation as primary means of improving the reliability and cost of Idaho's transportation fuel supply while also encouraging development of new resources
- Support responsible exploration and production of petroleum supply and expansion of transmission, storage and distribution infrastructure benefiting Idaho
- Work with other states to promote increase in Federal CAFE standards

- Encourage use and purchase of hybrid, high mileage, alternative and flex fuel vehicles. Explore opportunities for adoption by private and state owned fleets, public transportation and school busses.

- Promoting use and expansion of public transportation where effective in reducing vehicle miles traveled, including intercity transportation where feasible

- Promote reduction of truck and tour bus idling

- Investigate encouraging use of rail and intermodal freight transportation where feasible

Biofuels

- Adopt measures promoting growth of all types of biofuel feedstock and biofuel production

- Maintain flexibility to adapt to changing and improving technology and adjust to price and supply issues in a maturing market.

It is left until the next meeting to consider particular types of incentives and whether to emphasize particular fuels or technologies.